Transnationals

Quarterly Newsletter of the United Nations Centre on Transnational Corporations

NEW CRITERIA FOR CORPORATE ENVIRONMENTAL MANAGEMENT

In late July, the Economic and Social Council of the United Nations asked for the global dissemination of 14 new environmental management criteria that many hope will spur a new corporate thinking on the environment. The Criteria build on ongoing environmental initiatives, stressing waste minimization, resource conservation and the use of efficient technologies, and seek to extend management perspectives from financial "profit-and-loss" concerns to long-term thinking on environmentally sustainable growth.

Put together in consultation with transnationals, Governments, environmental organizations and academia, the Criteria also point to the need for environmental "auditing", impact assessment and regular disclosure to investors, creditors, government and the general public.

The Criteria for Sustainable Development Management are among recent initiatives to bolster the participation by large enterprises, especially transnationals, in global environmental protection. It is also the first normative policy statement by UNCTC on the environment to be requested by the Economic and Social Council. Many Governments, in their statements at the Preparatory Committee for the 1992 World Environment Conference in Nairobi last month, made specific reference to the Criteria.

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Code Hearings

In hearings before members of the US Congress Senate Foreign Affairs Committee on October 11, chaired by Senator Sarbanes of Maryland, businessmen, officials and experts testified on the Code of Conduct on Transnational Corporations. A new draft of the Code is up for decision before the United Nations General Assembly.

Joel Davidow, a former US negotiator of international codes of business conduct; Sidney Willner, former Vice-Chairman, Hilton International; and Esther Peterson of the International Organization of Consumers Unions, urged that the United States support passage of the Code. The new draft, they said, meets all significant Western concerns. Oscar Schachter, law scholar, and John Kline,

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Paul Sarbanes

Ethiopia Seeks Out Investors

Ethiopia has embarked on an all-out investment promotion programme that is likely to contribute significantly to the country's move towards a mixed economy, with foreign and local private-sector investments playing a key role.

In May 1990, the Government issued a Special Decree on Investments, by which foreign and local private investors were permitted, for the first time, equity holdings of up to 100 per cent in most production and service sectors. Earlier investment legislation, providing for the establishment of joint ventures with minority foreign holdings, had very little impact. The new Decree does away with the restriction on foreign holdings contained in Proclamation 32 of 1989.

The new law reflects the country's need for increased foreign capital inflows, combined with stepped-up local private and public investment, to fuel national growth. In the last few years, the Ethiopian economy has faced severe difficulties and constraints. Recurring drought has placed

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Environment

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In Washington, Gus Speth, President of the World Resources Institute, said "the Criteria provide an excellent framework from which to develop a set of policies and programmes to improve the environmental awareness and performance of any transnational corporation. Moreover, the concept of sustainable development provides a means to move beyond the growth versus environment way of thinking and the confrontational attitude that has too often characterized environment-business relations".

Environmental initiatives must involve transnational corporate managers. Transnationals account for about 70 per cent of the products in international trade, 80 per cent of the world's land cultivated for export crops, and the major share of global technological innovation. Moreover, most new environmentally safe technologies are developed by them.

The Criteria are widely applicable. "To recognize a special potential and responsibility for transnational corporations to make a major contribution to sustainable development and global environmental protection does not, of course, mean that local enterprise is dispensed from living up to the same environmental standards", said J.P. Pronk, Minister for Development Co-operation of the Netherlands. Bjornar S. Utheim, Ambassador for Environment, Royal Ministry of Foreign Affairs, Norway, added, "It is to be hoped that these guidelines will be followed by all those concerned, in the business community as well as in the public sector".

The Criteria are being distributed to key government ministries throughout the world, and to industry associations, trade unions, environmental organizations and business schools.

Among the new issues raised are the need to minimize the detrimental impact to indigenous cultures and ecosystems from the use of new products or processes and to ensure the compatability of technologies with the needs, skills and resources of host regions. Foreign businesses should diversify their investments since excessive reliance on exports of non-renewable resources or on monocultures can severely strain a region's environment.

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The Criteria present 10 "first" steps for companies:

1. Establish and publish a corporate sustainable development policy statement.
2. Align strategic planning, resource acquisition plans and operating procedures with the sustainable development policy.
3. Review and modify corporate structure, lines of responsibility and internal reporting mechanisms to reflect the policy.
4. Educate staff, reward employees who discover and report environmental problems or recommend new, environmentally sound products and processes.
5. Prepare sustainable development assessments of all major upcoming investment and operating decisions.
6. Perform an environmental audit of ongoing activities, particularly those in developing countries.
7. Report publicly on the enterprise's most hazardous products, processes and toxic emissions.
8. Institute research and development work on the reduction and/or elimination of industrial products which generate greenhouse gases. Arrange for environmentally safer technologies to be available to affiliates in developing countries.
9. Inform joint venture partners and subcontractors. Discontinue business relationships with firms which operate with a disregard for basic health and environmental concerns.
10. Disseminate Criteria to other firms in relevant trade associations, local areas, or affiliated companies.

Code Hearings

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economist, in written statements, also favoured passage.

Abraham Katz, Chairman of the US chapter of the International Chamber of Commerce, commended the new draft's reference to international law, but noted that as yet it is not formally endorsed by Governments. He agreed that a United Nations Code, if balanced, could make a positive contribution to clarifying broad investment issues and hopefully to increasing investment in developing countries. Jane Becker, representing the Administration, said that the United States would be willing to resume negotiations after completion of the Uruguay Round.

Linking Transnationals With Entrepreneurs

Griselda Amancay is one Argentine who is not waiting around for her country's debt crisis to be solved. She designs and makes molded acrylic purses for women. She came up with an efficient and economic small-scale molding technique. Because the domestic market for purses is dominated by leather products, she has found a niche market. But her lack of business skills prevented sales from taking off. In fact, she was thinking about closing her business when she saw an advertisement for EMPRETEC in a Buenos Aires newspaper.

EMPRETEC is an innovative programme developed by UNCTC to provide entrepreneurs like Griselda Amancay with easy access to the services needed for launching a new business. EMPRETEC is unique not just because it offers a complete package of services for start-up companies, but also because it uses established businesses, including foreign firms, to help create new ones. To ensure private sector participation, UNCTC contracted Norman Edinberg, a successful Venezuelan entrepreneur who has experience in working with transnationals, to manage EMPRETEC.

Begun as a pilot project in Argentina in March 1988 with funding from the Italian Government, EMPRETEC is now also active in Chile, Uruguay and Nigeria, and new programmes just got underway in Brazil and Ghana. If present plans materialize, EMPRETEC will be operating in another 25 countries in the next five years, training over 2,000 entrepreneurs a year and generating some 500 businesses annually.

The programme begins with a rigorous selection process. Out of 300 applicants 30 are selected to participate in a training workshop that sharpens entrepreneurial talent, teaches key management skills, and helps develop a business plan. Follow-up services are available from a nationally-staffed business support centre. Thanks to one of these workshops and subsequent support provided by EMPRETEC, Ms. Amancay managed to turn around her company. Two years later, her company has quadrupled its work force, production has diversified, domestic sales have improved dramatically and it has just begun exporting to Japan.

Using established businesses to create new ones, the EMPRETEC programme offers a complete package of services for start-up companies.

Mutually Beneficial Links

In each EMPRETEC country transnationals have volunteered training and technical and managerial assistance to participating entrepreneurs, free of cost. In Argentina, for instance, a Coopers and Lybrand affiliate helps them develop their business plans and IBM runs sessions on its subcontracting requirements for the export of printer parts to other IBM operations. Agfa Gevaert holds panels on quality control. Siemens gives workshops on marketing and Dupont offers technical assistance in new product development.

The Italian firm Enichem is helping EMPRETEC participants with chemical and biotechnology businesses locate joint venture partners in Italy. On the financing front, the Bank of Boston conducts panels on export procedures and credit lines, and Roberts Bank, which operates a venture-capital fund (in conjunction with Chase Manhattan, the International Finance Corporation and the local Bunge & Born conglomerate), gives panels on how to present business plans for venture capital financing.

In Uruguay, Banca Nazionale del Lavoro is working with other transnational banks to promote a venture capital fund to finance EMPRETEC businesses.

EMPRETEC entrepreneurs are brought into contact with transnationals and some do take advantage of opportunities for mutually beneficial links. An Argentinian entrepreneur is supplying reinforced plastics components to an Italian helicopter company; for another Italian company, a Uruguayan entrepreneur is quarrying marble.

Both parties benefit from such collaboration. For the local entrepreneur, linking up with foreign firms opens a way to new technologies, improved management, overseas markets and profitable partnerships. For transnationals, successful local enterprises contribute to a dynamic investment climate, expanding domestic markets and increased profits.

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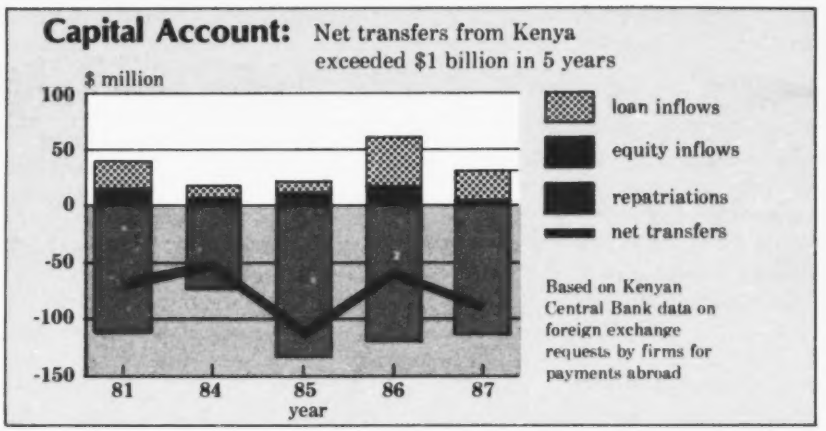
READEX FICHE

Kenyan Parastatals: State as Investor and Regulator

What is good for state enterprise is best for the state, or not? Kenya's parastatal experience — the subject of a 12-volume UNCTC study — has sparked a debate within government circles on its dual roles as an investor and a sovereign power.

Parastatals — enterprises which have some government participation, either as shareholder or manager — account for some 50 per cent of national employment in Kenya's larger industrial and service enterprises.



Active Promotion

This sizeable state equity participation in large scale manufacturing was prompted by Kenyanization efforts in the late 1960s and 1970s. Three government policies were instrumental in the proliferation of parastatals: (1) a sustained import substitution policy with implications (positive and negative) emanating from protectionism; (2) an active government promotion of and participation in manufacturing ventures; and (3) a liberal attitude towards relations with foreign enterprises coupled with a favourable world environment for foreign investments.

It made good business sense for foreign firms to involve the Government as a partner.

Foreign firms found that it made good business sense to involve the Government as an equity partner. In the first 10 years, their share in the total equity of large manufacturing firms dropped from 60 to 44 per cent. In reducing the level of their investments, however, they tended to insist on various mechanisms of control, such as management and technical assistance contracts and veto rights as shareholders. In most cases, the state participated as a passive partner, so the joint venture remained effectively controlled by the foreign partner. At the same time, access to government decision making and preferential treatments proved valuable contributions not always available to wholly owned subsidiaries.

As part of its promotional policy, the Government poured sizeable resources into parastatals, both directly (through equity) or indirectly (through loans, mostly subsidized). They came to absorb as much as 40 per cent of Kenya's total external public debt by the late 1970s. They were also absorbing a dominant share of the Government's investment budget (generally between 40-70 per cent). The use of public savings likely created significant crowding-out effects for other development objectives.

Resource Transfers

There were strains on the external account as well. Parastatals generate income payments overseas (for dividends, interest, royalties and other fees) in the range of $100-150 million annually. Apart from these factor payments, since the mid-1970s inflows on the simple capital account were much smaller than the resource and foreign exchange claims necessary to service past private foreign capital flows. During a five-year period for which data was available (1981 and 1984-87), the net transfers from Kenya exceeded $1 billion.

Net Social Benefits

Only half the parastatals, at best, appear to generate net social benefits, according to a cost/benefit analysis of 55 joint venture parastatals for the period 1975 to 1985. The UNCTC study analyses the effects of tariff protection, interest subsidization, government grants and linkages with the rest of the economy.

On the whole, the best performing sub-sectors are in services and agro-industries. Financial services

appear to have registered a consistently positive net social benefit.

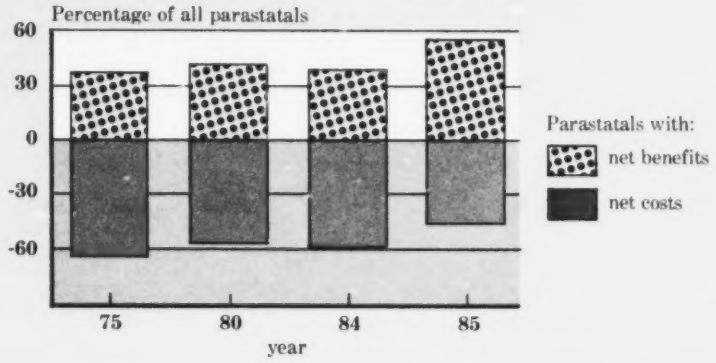
The worst performing sectors, from a socioeconomic point of view, are traditional manufacturing activities (mainly textiles and the assembling and metal-chemical industries). Factors affecting poor performance include high import content and low levels of Kenyan productive or technological capabilities, together with high effective protection and sizeable payments to foreign providers of goods and services.

Public Revenue

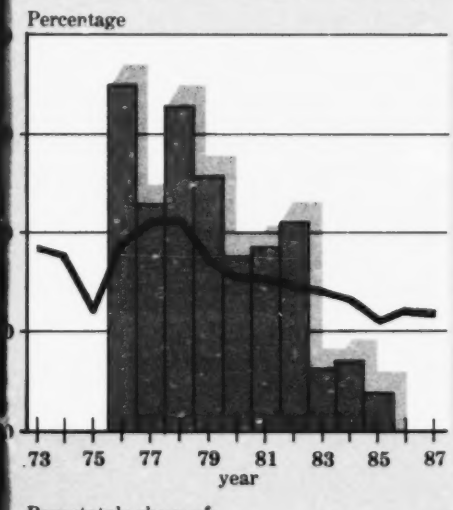
Government revenue is not necessarily a question of equity participation. Dividend receipts from parastatal joint ventures are only a small percentage (3-8 per cent) of total government receipts from such joint ventures. Some 80 per cent of the Government's "take" is in the form of direct and indirect fiscal charges, and it is to this mechanism, rather than a return on equity investment, that the Government looks for revenues.

Thus, fiscal receipts would not be altered if the Government had no equity stake. What would change is the amount of negotiation that is currently increasing between those arms of the Government acting as regulators, such as the tax authorities and the Central Bank, and those branches of government acting as investors, particularly the government Investment Division and the development banks.

Socio-economic Benefits: Only half or less of the parastatals yield net benefits



Crowding-out: Parastatals absorbed 40 per cent or more of the public budget



Greater Self-sufficiency

The 1980s marked a new era in the country's relations with foreign firms, however. Prompted by macro-economic realities, the Government today recognizes that many of the original reasons for state participation have disappeared. Although reluctant to propose wholesale privatization, the Government recognizes that action is needed to move parastatal joint ventures into greater economic self-sufficiency.

In 1983, public outlays for parastatals were drastically reduced, and interest subsidies and guarantees for new debt were significantly curtailed.

The Government's traditional role as a passive partner in joint venture management is also being debated within government circles, in terms of the need to exercise greater control over parastatals. No major change is likely, however, as it is also recognized that effective control over decision making is not necessarily a question of equity participation but also one of technological and management expertise.

"The main aim of the Government is to see business prosper with a minimum of inconvenience", states George Saitoti, Kenya's Vice-President and Minister of Finance. In this spirit, a one-stop Investment Promotion Centre has been set-up to expedite approvals of investor proposals within one month. Also, a Capital Market Development Authority has been created to help mobilize venture capital.

In addition, the study recommends fiscal incentives to encourage firms to reinvest surpluses (that are otherwise repatriated).

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Parastatals

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Also recommended are: duty-free access for a variety of capital goods; reduction of certain corporate taxes; and clearer guidelines for dividends and remittances.

On sectoral policy, the report recommends policies to encourage product improvement and increased competitiveness, particularly for exports. Protective tariffs should be revised.

About the Study

Initiated in 1986 at the request of the Government of Kenya and funded by the United Nations Development Programme, the 12-volume study on business relations between the state and foreign enterprises contains: an historical review and assessment of joint ventures since independence; financial analysis of the performance of 70 parastatal companies over the 10-year period 1976-86; case studies of managerial decision making in 26 enterprises; comparative analysis of sectoral and subsectoral policies; socioeconomic cost/benefit analysis; and legal, institutional and policy matters in the promotion of joint ventures. Among the experts involved were Brian Fix, Constantine Vaitsos, Colin Pearce and David Gachuki. The study was formally presented to the Government of Kenya at a roundtable meeting held in Nairobi in April 1990. ■

Entrepreneurs

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Self-financing

EMPRETEC country programmes, which are financed by voluntary contributions from donor Governments and the United Nations Development Programme, have been designed to become self-financing within two or three years, with most of the subsequent funding coming from participants' fees and paid advisory services.

In each country, an Executive Committee drawn from the private sector, government, banking and trade associations, local universities and international agencies, oversees the programme and helps select promising projects. A counterpart organization — in Argentina the largest national bank, for example, or in Chile a private foundation — donates office space and other facilities essential for start-up.

EMPRETEC participants have founded national entrepreneurs' associations that meet monthly, exchanging information, providing feedback, and support. Three EMPRETEC graduates started EMPRESAR, a monthly magazine that targets an expanding entrepreneur readership in Latin America.

How EMPRETEC Works

- **Selection** — Outreach for participants is carried on through the local media and public and private institutions. Thirty are selected at a time, from hundreds of applicants.
- **Workshop** — (12 days) Focus on behavioural aspects of entrepreneurship and on building skills needed to plan and operate a small business. Preliminary business plans developed.
- **Business plan** — Corporate advisory panel reviews plans, identifies areas of assistance and recommends ventures most viable for financing.
- **Support centre** — Assists EMPRETEC graduates complete business plans, initiates contact with the local business community and transnationals, and secures technical and financial assistance.
- **Transnational linkages** — Support centre and UNCTC explore the potential for technical assistance, joint venture, or subcontracting tie-ups between EMPRETEC businesses and transnationals.

Cross-border Links

There is also close co-operation between national programmes. Entrepreneurs and trainers from one country participate in workshops in another. The Argentinian and Uruguayan associations have linked-up, offering reciprocal support services to members.

Entrepreneurs are highly motivated to grow into regional markets, and their businesses are sufficiently flexible and specialized to form partnerships and joint ventures with other small and medium-size enterprises in the region. In one venture, an Argentinian fish producer will supply a small-scale Uruguayan fish protein manufacturer. In another, a licensing agreement, a Uruguayan firm is producing credit cards with Brazilian technology.

The dynamism of the entrepreneurial enterprise is an important factor that can make regional integration work. That concept underlies a Latin American regional EMPRETEC organization currently under consideration. Requests have also been received for sub-regional programmes in the Andean Pact countries, Central America, West Africa and southern Africa. ■

Environment

(Continued from page 2)

Companies are urged to provide information to consumers on safe product use, workers on safety in the workplace, and to maintain tabs on the environmental practices of their facilities. The Criteria "represent a valuable contribution toward . . . an evolving acceptance of responsibility for protecting the environment", said Richard E. Benedick, World Wildlife Fund, Washington.

In a related project, UNCTC will conduct a world-wide survey of corporate environmental management practices. The results will enable companies to evaluate their performance against that of others. Over 1,000 transnationals, including the 200 largest service firms, will be surveyed.

Accounting for Sustainable Development

Estimates hold that more than $200 billion will be required to prevent increased industrial pollution over the next decade. But no Government yet requires environmental impact disclosure from companies, mainly due to the absence of appropriate reporting methods. Proper environmental accounting, by internalizing the full cost of production, will promote more sustainable production strategies.

A UNCTC international accounting project is working to develop ways in which transnationals can report environmental costs accurately in their traditional financial statements. The project will also design special purpose reports for qualitative information on corporate environmental policies, hazards and risks. The project is being sponsored by the Government of Sweden.

Other initiatives on business' responsibility for the environment include the Valdez Principles, elaborated by a coalition of socially responsible investors, environmental groups, labour unions and churches; and the Global Environmental Management Initiative (GEMI), an industry-sponsored plan aimed at developing a charter for corporate environmental management. ■

Ethiopia

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enormous pressure on the country's limited resources. Agriculture, providing 40 per cent of GDP and about 80 per cent of employment, remained stagnant. The industrial sector witnessed marginal growth, despite a substantial increase in mining and quarrying.

There is considerable potential for rapid economic and industrial growth. With a population of over 48 million, Ethiopia is one of the largest potential markets in Africa. Besides, the country has a fairly strong infrastructure in terms of availability of electrical power, transport facilities and cheap, hard-working labour.

Under the new Decree, local and foreign investors can enter into various forms of business organization, ranging from ordinary, general or limited partnerships to share companies and joint ventures, in most sectors of the economy and with no capital ceilings.

Prior approval from the Council of Ministers is not required for new investments, except in electric light and power, banking and insurance, processing of tobacco and supply of potable water. A few industries remain closed to foreign investors (defence, telecommunications, transport and broadcasting). An organization has been set up to promote new investments and joint ventures in Ethiopia.

Foreign investors can enter in most sectors of the economy with no capital ceilings.

As a first step, over 50 investment "profiles" are being developed that define the scope and potential for new investments in areas like agro-processing, plantations, and various industrial and manufacturing sectors. They will be circulated widely in several countries and to a large number of transnationals. Investment promotion missions will contact or follow-up with potential investors.

An information system on potential sources of foreign investment and technology in selected fields is being developed for the Government. Training programmes for representatives from concerned ministries, state agencies and the private sector are being conducted on negotiating joint ventures, technology agreements and other contractual arrangements.

Assistance in the formulation and implementation of this programme is being provided by UNCTC, under a UNDP-funded project. ■

Introducing Market Accounting in the USSR

With the introduction of market economy mechanisms in the USSR, demands have emerged for accounting practices more in line with international standards. Foreign joint venture partners, especially, have led the move.

Soviet accounting was designed for central planning. Based on a uniform national "chart of accounts", it differs in key respects from internationally acceptable concepts and standards.

Revenues and Expenses: Revenues are recognized when payment is received, not earned; but expenses when debits are accrued. This mismatch distorts income for a particular period. However, joint ventures are now allowed to recognize revenues on accrual too.

Risk: The Soviet system assumes a "risk-free" business environment, so the value of assets does not change with economic conditions. State enterprises, for example, make no provision for uncollectible accounts receivable. This is incompatible with an environment in which enterprises are risk-takers and survive or fail by their own efforts. According to new rules, though, joint ventures may provide for doubtful debts.

Profits and Losses: An "international style" profit and loss statement is not used. Instead, an overall profit is shown, reflecting income from sales and profits (losses) not connected with sales.

> *"The new chart of accounts will certainly have an effect on the implementation of the market system in our country"*
>
> ***Nikolai Panteleev, Director of Accounting, Ministry of Finance, USSR***

Production Costs: Direct and indirect costs are lumped together. For instance, general overheads are carried forward in the value of unsold products. Under international accounting practices, overheads are period costs, expensed in the period in which they occur.

Fixed Assets: Since Soviet enterprises normally receive fixed assets free from the Government, acquisition or depreciation is treated as an increase or decrease in the statutory fund. By international practice, the capital of the enterprise is not affected by the addition of fixed assets.

Intangible Assets: These are not allowed in financial statements. However, joint ventures are now permitted to include them, to enable partners to contribute capital share in the form of know-how, trademarks, patents, or land use rights.

To resolve the differences between Soviet and international accounting in a systematic and comprehensive way, the Ministry of Finance and UNCTC created a Task Force on the Improvement of Accounting for Joint Ventures. Composed of both Soviet and international experts, the task force will modernize the chart of accounts for joint ventures, keeping in mind its applicability to state enterprises and co-operatives as well. ■

Joint Venture Accounting in the USSR: Direction for Change. **United Nations publication. Available in November 1990. Copies may be obtained from the United Nations, Sales Section, New York or Geneva. Also available, *Accounting for East-West Joint Ventures* (Atlanta, Lafferty Publications, 1990).**

The United Nations Centre on Transnational Corporations is an autonomous body within the United Nations Secretariat. Under the guidance of the Commission on Transnational Corporations, an intergovernmental subsidiary organ of the United Nations Economic and Social Council, the Centre seeks to further understanding of the nature of transnational corporations; to secure effective international agreements; and to strengthen the negotiating capacity of host countries, in particular the developing countries.

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Transnationals

Quarterly Newsletter of the United Nations Centre on Transnational Corporations

ENVIRONMENTAL CONCERNS SET GLOBAL REGULATORY TREND

Companies Responsive, Some Announcing Plans to Go Beyond Current International Measures

More international progress has been made on reducing the danger to the ozone layer from chlorofluorocarbons (CFCs) than on any other effort to protect the global environment. If the experience is indicative, environmental concerns are building a movement for international regulation.

In the wake of scientific evidence and public pressure, Governments have adopted the Vienna Convention and the Montreal Protocol on reducing the use of ozone-depleting compounds.

At the same time, in the face of impending regulation, companies are committing to environmental excellence and self-regulation. Many have pledged to phase-out the use of CFCs and are quickly developing new technologies. The likely outcome is more rapid reductions in CFC use than those mandated by the Montreal Protocol.

Corporate Response

CFCs are produced almost exclusively by large chemical corporations, most of which qualify as transnational. DuPont accounts for 25 per cent of world production. Transnationals are also heavily involved in the intermediate consumption of CFCs. They are primarily used by a few large corporations that produce air conditioners, refrigerators and electrical appliances. Many CFC solvent users are major transnational electronics firms.

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Ozone Depletion and Chlorofluorocarbons

In 1985, the British Antarctic Survey published the discovery of an enormous "hole" in the ozone layer over Antarctica, a 50 per cent depletion over an area greater than China.

CFCs and related chemicals are the source of virtually all stratospheric ozone depletion. They are produced and consumed almost exclusively by large transnationals.

USSR Liberalizes Foreign Investment Regulations

The Soviet Union is offering new incentives to foreign investors to strengthen the economy, attract new technologies, managerial skills and capital, and increase the supply of goods and services. The new incentives went into effect, by presidential decree, on 26 October 1990.

The decree allows foreigners to invest not only in joint ventures but also to acquire property, shares, land-use rights and other securities in the USSR. In addition, foreign investment is granted legal protection and treatment no less favourable than Soviet enterprises.

Businesses may now be 100 per cent foreign owned and income in roubles may be freely reinvested and used in the USSR or transferred abroad.

The decree also legalizes the creation of zones of joint entrepreneurship (free economic zones). ■

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Environment

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From their initial opposition to any regulation, some corporations are supporting international measures. They see international regulation as preferable to domestic legislation since it could provide a "level playing field" in which to operate.

DuPont has recently gained goodwill by agreeing to changes in its operations prior to international regulation. In response to the dramatic evidence in March 1988 that ozone depletion had already occurred over inhabited latitudes, DuPont announced that it would support a complete phase-out of CFCs before either the United States or the European Community announced a similar intention.

A few other major corporations such as ICI and Rhône Poulenc have followed this lead and made public commitments to the production of HFC134a, a safe alternative to CFCs. Most CFC and refrigerator manufacturers are proceeding cautiously due to the size of the investment required for the switch to alternatives and uncertainty on how new refrigeration systems will work.

Many user industries have also become involved in the phase-out process. For instance, electronics corporations, such as IBM and Digital Equipment, that use CFCs as a solvent to clean electronic parts, have started using a CFC-free process. AT&T and Northern Telecom have announced plans to phase-out the use of CFCs by 1994. Automobile manufacturers such as General Motors and Nissan have also announced that they expect to be marketing auto air-conditioning systems which do not use CFCs by 1994. Electrolux has just delivered its first test shipment of 400 CFC-free refrigerators for sale in Sweden.

Companies see international regulation as preferable to domestic legislation since it could provide a "level playing field" in which to operate.

Almost all major user groups have announced joint research and development efforts on alternatives. Since a complete phase-out of most ozone depleting chemicals through international regulation now seems inevitable, there is a concerted effort among transnationals to find alternatives. Their large financial bases allow considerable exploration.

The Phase-out

The CFC experience suggests some of the key interactions which need to occur between citizens, scientists, policy-makers and corporations to make a global agreement effective. Researchers in the early 1970s suggested that CFCs could be damaging the ozone layer. Extensive publicity led to the widescale boycott of aerosol grooming products. In 1978, the use of CFCs in most aerosol spray cans was banned in the United States, Sweden and Canada.

Although the ban had a significant impact on emissions, it did not spread beyond those countries for about a decade, and use of CFCs as aerosol propellant has remained the single greatest use of CFCs to date. Also, new uses pushed CFC consumption back above 1977 levels, even in countries participating in the aerosol ban.

In the meantime, waning regulatory interest in the early 1980s reduced pressure on corporations to look for CFC substitutes.

However, scientific and public concern intensified in the mid-1980s. In 1984, the Natural Resources Defense Council, a US non-governmental organization, filed a law suit against its Government for not conforming to the regulatory process. In the following years, major CFC producers

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Additional Steps

Many of the necessary steps have already been taken, at the international level and within corporations. However, CFC user industries can also commit corporate policy to:

- **Halt the use of CFCs as rapidly as possible, long before international deadlines. This is feasible for almost all products, even refrigerators.**
- **Halt the use of other chemicals known to be highly damaging to the ozone layer, such as methyl chloroform or carbon tetrachloride, before international deadlines.**
- **Work on methods to recycle and recover products which store CFCs or even CFC alternatives, such as polyurethane foam and refrigerators.**
- **Use HFCs and HCFCs to replace CFCs as little as possible. They should not be used in aerosol spray cans since other alternatives are clearly available. For other more vital uses, they should be viewed strictly as interim substitutes.**

Privatization Takes Hold in Eastern Europe

Privatization is rapidly complementing joint ventures as a means of attracting foreign investment in the countries of Central and Eastern Europe.

Privatization is viewed as a fundamental element in the creation of a market economy. By dramatically departing from earlier ownership structures in which the state or labour collectives controlled all property and means of production, privatization takes a radical step towards creating an indigenous private sector. Without a local class of property owners, entrepreneurs and managers, economic restructuring and the transition to the market cannot be sustained.

By giving more control to buyers, foreign investment in privatized enterprises will have a greater impact.

Allowing private ownership is also a means of attracting foreign capital. Though joint ventures allow foreign participation, they have to date proved limited and handicapped by operational difficulties. By giving more control to buyers, domestic and foreign, authorities anticipate that foreign investment in privatized enterprises will have a greater impact on the process of economic restructuring than joint ventures.

Since early 1989 all but two of the countries have passed laws permitting the sale of state-owned assets to domestic or foreign buyers or both. In Poland, the privatization of seven major enterprises started in mid-November 1990. In Hungary, over 100 enterprises are due to divest in the next few months.

The New Legislation

Hungary was the first to introduce legislation to effect privatization by adopting Act XIII on the Transformation of Economic Organizations in 1989. Yugoslavia followed in the same year with a special law on the sale of social capital, considerably amended in 1990.

Rather than establish a national agency for privatization, the Yugoslavian law authorizes individual republics to establish two types of agencies. The first — "funds for development" — receive the proceeds of sales. The second, termed "agencies for restructuring and recapitalization", advise enterprises on sales procedures and valuation.

The former German Democratic Republic enacted radical privatization legislation in March 1990. All state-owned enterprises are to be transformed into stock companies and turned over to a *Treuhandanstalt* or trust agency, charged with selling them off to private interests. The agency continues this function in the unified Germany.

NGOs

Non-governmental organizations are also playing a role in privatization. One of them is the Moscow International Center on Entrepreneurship and Privatization, founded last month, which plans to participate in the privatization of state enterprises, assist in the development of stock markets and related financial institutions, and help entrepreneurs start up new companies.

In early 1990, Poland and Romania followed. The Polish law created a Ministry of Ownership Changes, a powerful administrative organ to oversee the privatization process. Similarly, the Romanian legislation provides for the establishment of a National Agency for Privatization, which is subordinate to the Government.

In contrast, the Soviet Union has not as yet come up with specific national privatization legislation. But the Presidential Decree on Foreign Investments of 26 October 1990 indicates that this may not be too far away.

Some of the Soviet constituent republics are considering their own privatization schemes. Latvia, for example, is planning an independent foreign investment law. Like Lithuania and Estonia, it is considering the introduction of privatization measures that include the return of expropriated properties to their previous owners. Estonia has already established a special Department for State Property to organize privatizations.

Czechoslovakia has yet to promulgate its laws on privatization, but the basic principles have been publicly outlined. Albania is considering divestiture. Bulgaria has not announced any privatization plans.

Each country has its own agenda and concerns. Hungary sees foreign capital fuelling the first phase of privatization. Others are placing greater emphasis on the sale of enterprises to employees. Yugoslavia and Poland, for example, are offering workers all sorts of incentives to induce them to buy shares in privatized enterprises.

Others are aiming at the larger community. Romania requires

(Continued on page 7)

Mexican Policy Reforms Gain Corporate Approval

Mexico's modernization strategy, embodied in the 1989-1994 National Development Plan, assigns a key role to the private sector and, especially, foreign capital. Companies are expected to spearhead Mexico's entry into the world market under highly competitive conditions. Are businessmen prepared to accept the challenge?

Yes, it seems, according to a questionnaire of 63 of Mexico's 100 principal manufacturing enterprises with foreign capital, which together account for a third of the industrial production and 42 per cent of the exports of manufactures in 1987.

Half of the chief executives feel that the new foreign investment regulation of March 1989 would encourage new investments by their companies. The main benefits, in their view, are the higher equity participation now allowed to foreign investors and the simplification of administrative procedures. This view is held primarily by firms producing for the domestic market.

Eighty per cent of the chief executives consider the new regulation on technology transfer of January 1990 would facilitate their acquisition of foreign technologies. The three most important advantages are seen to be the streamlining of registration and approval procedures, the elimination of limits on royalty payments and the increased flexibility by authorities in specifying performance requirements. They feel, however, that steps also need to be taken in the area of intellectual property protection and trademarks.

The main benefits of the reforms are higher foreign equity limits and the simplification of administrative procedures, say executives.

Executives were responding to a UNCTC/ECLAC questionnaire designed to assess the effects of the debt crisis on Mexican industrialization. Each firm was questioned on its adaptive reactions to the crisis and the concomitant policy changes made by the Government to aid economic modernization.

More Fit From Debt Crisis

Not one of the firms feels it has not emerged stronger and more efficient from the rigours of the debt crisis. Seventy per cent feel more capable of competing internationally. And, say their chief executives, while changes in government policy helped, their own efforts were more consequential in ensuring survival.

The results have indeed been impressive. In the 1980s, the dollar value of Mexico's exports of manufactures quadrupled. Exports to the United States alone surged from about $18 billion in 1986 to about $30 billion in 1990. Most firms stepped up or initiated export operations. And significant inflows of new foreign investment entered the manufacturing sector, which appears to have recouperated its historical growth rate.

Survival Strategies

Three factors were considered to have had the strongest impact on firms' performance in the 1980s. The collapse of domestic demand was by far the most serious. The sharp devaluation in the peso and

Company Strategies During the Debt Crisis

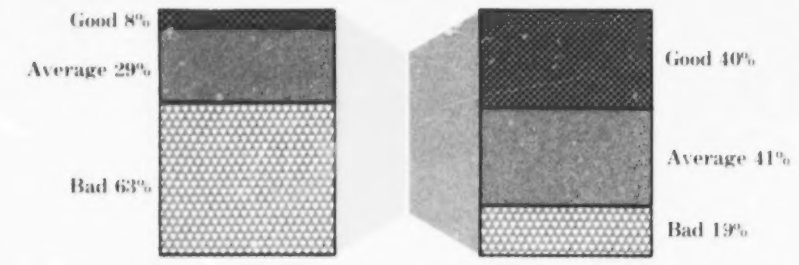
What were the key aims of your strategy?
- Production efficiencies
- Financial restructuring
- Export sales

Did you make major new investments?
- Yes: 94%

In what ways are you more efficient now?
- Cost reductions
- New company policy
- Quality improvements

Did your exports increase relative to total sales?
- Yes: 81%

How Would You Rate Mexico as a Host for Foreign Investment?



the steep rise in national interest rates were the others.

Almost all firms made major investments, such as opening new plants, starting new lines of production or entering new markets. The most significant results, said executives, were reduction of production costs, the birth of new corporate strategies, and improvements in the quality of firms' production. Financial operations generally came second in corporate strategies for survival and trade initiatives third.

Firms able to increase their national market share or export a more substantial part of their production weathered the crisis best. The 10 most successful managed to do both. These "winners" were all large firms with low- or medium-range market shares, exporting primarily to the United States.

Two thirds subcontracted nationally for local components or pieces. The reasons cited were to simplify operations, to reduce costs and to exploit small enterprises' greater flexibility as suppliers. A few said they did so to comply with regulations explicit in official sectoral policies.

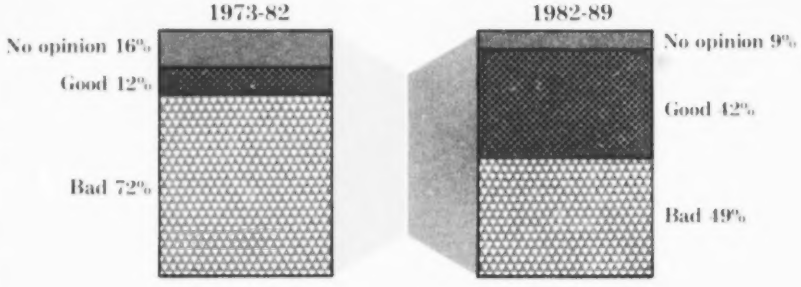
The Policy Context

The prolonged crisis of the 1980s prompted significant shifts in government policy. The import substitution policies of the 60s and 70s, favouring large national firms and state enterprises, were replaced by a focus on export promotion in technologically complex industries like automotives and microcomputers.

In the area of technology transfer, limits on royalty payments, mandatory contract registrations, and the lack of protection for intellectual property had visibly negative effects. Deregulation and national initiatives to promote technological development helped to a certain extent in acquiring foreign technology, but they did not go far enough.

Overall, there is preoccupation about the continuity of recent achievements. While smaller enterprises view the recent policy changes as more or less permanent, the big automotive affiliates, as yet, do not. The latter, perhaps, are also more preoccupied by events outside Mexico. Since some 85 per cent of their exports is to the United States alone, most via intrafirm trade, a downturn in the US automotive market or a change in corporate strategies on international sourcing could devastate their, and Mexico's, export performance. ■

How Would You Assess Mexico's Policy on Technology Transfer?



According to executives, fiscal incentives, the declining peso, the *maquiladora* programme and the liberalized trade policy of the late 80s were the leading factors in Mexico's recovery. The instruments which most affected individual firms' export performance from 1982-89, executives said, were the exchange rate, access to the US market and changes in the strategies of parent companies. Changes in official policy were incidental, since, by and large, regulations remained too restrictive.

"Industrial modernization in Mexico: results of the questionnaire administered to the largest companies with foreign capital in the manufacturing sector during May/-June 1990." Available in English and Spanish from the UNCTC/-ECLAC Joint Unit, Edificio Naciones Unidas, Casilla 179-D, Santiago, Chile.

Third World Universities Develop International Business Curriculum

In a remarkable interregional effort, 40 universities from Africa, Asia and Latin America are putting together a curriculum on international business, corporate law and economic development for use in institutions of higher learning in developing countries.

The three-volume curriculum presents a basis for long-term training for government and public sector officials in areas such as joint ventures, technology acquisition arrangements, construction and management contracts, international trade transactions, arbitration and various contractual arrangements in mining, petroleum and other natural resources. Each volume includes an extensive bibliography of reading texts and academic journals, presented on a regional basis.

With developing countries reforming their economies, opening to foreign capital, and stepping up the role of the private sector, the need for an adequately trained cadre of officials and managers is underscored. Short-term training may help, but it cannot create the critical mass of expertise necessary to effectively deal with new forms of economic co-operation and activity. For training to be long-term, it should be given at the university level, prior to professional recruitment. With this in mind, the curriculum targets universities and institutes of public administration and management.

Curriculum Comprises 3 Syllabi

- **Economic Development** — Describes, interprets and evaluates the interaction between transnationals or their affiliates and the economic development of the host country.
- **International Business** — A state-of-the-art course in international business and transnationals from a developing country perspective.
- **International Law** — A series of courses in international investments, including such areas as accounting for lawyers and international taxation law.

Curriculum Already Basis for Teaching

As it is, developing country universities are beginning to shift their educational agendas in keeping with economic changes being implemented by Governments. Much greater attention is being given to practical "bread and butter" courses that emphasize the teaching of, say, legal foreign investment issues, capital and resource management, or international marketing.

Many universities and institutes of public administration and management in developing countries are already drawing on the curri-

Environment

(Continued from page 2)

revitalized their programmes for research on alternatives.

The Protocol

The 1987 Montreal Protocol required a 50 per cent cut in CFC use by 1998 and a freeze in the use of halons by industrialized countries. It went into effect last year, after being ratified by the major CFC using and producing countries. It was strengthened in June 1990 by bringing forward target dates, including additional compounds, and providing financial relief to developing countries to meet the Protocol goals.

The Protocol will provide some $200 million over three years to help developing countries.

CFCs and halons will now be phased out by 2000. Carbon tetrachloride, a chemical not included in the original Protocol, will be phased out by 2005. A new financial mechanism has been agreed to, which will provide between $160 and $240 million over an initial three-year period to help developing countries. As a result, India and China, which were reluctant to participate originally because of the lack of provisions for aiding technology transfer, plan to recommend ratification of the Protocol.

UNCTC has a major work programme on the activities and strategies of transnationals in the environment. A study entitled *Transnational Corporations and Climate Change: A Case Study in Environmental Restructuring* will be issued in 1991. ■

culum. The universities of Singapore, the Philippines and Nigeria-Awolowo are using the section on law; the universities of Malaysia and the South Pacific, the section on economic development; and the universities of Sri Lanka and Lagos, the section on international business. The East and Southern African Management Institute is employing all three sections.

Botswana and Zimbabwe are currently in the process of implementing the curriculum. In Latin America, the universities of Chihuahua in Mexico and Católica in Chile have both shown a keen interest in incorporating the curriculum in their business departments.

In Asia and Africa, the training of trainers has proceeded concurrently with the drafting of the curriculum.

The curriculum is a product of a UNCTC programme of technical assistance to institutions of higher learning in developing countries. The programme was launched in 1981. UNDP provides financial support. ■

Washington Symposium on the Code

With the Code of Conduct on Transnational Corporations up for action at the 1991 session of the United Nations General Assembly, there is intense interest in Washington circles about the history. On 25 October, a symposium on the Code was held on Capitol Hill in Washington to discuss its current status with non-governmental groups.

The American Society of International Law, the Council of Washington Representatives to the United Nations, Public Citizen, and Senators Claiborne Pell of Rhode Island and Paul Sarbanes of Maryland sponsored the symposium. Among the speakers were Seymour Rubin (American Society of International Law), John Kline (Georgetown University) and Mark Franz (Heritage Foundation).

Daniel Fantozzi of the State Department said the United States would be willing to take up the Code after the Uruguay Round of trade negotiations.

Sam Brookfield, President of the Business Council for the United

Sam Brookfield

Nations, said that in this period of rapid change, UNCTC and other United Nations organizations will have a larger and more vital role to play in world affairs, including helping establish new rules for international interaction. The Code is important, since "it establishes a framework for behaviour on the side of all parties, behaviour which is already practised by responsible transnational corporations". ■

Privatization

(Continued from page 3)

that a percentage of the shares of each enterprise be deposited with a state agency for free distribution to every citizen over 18 years of age. Poland's legislation contains a similar provision, but procedural details remain to be specified.

The lack of indigenous capital markets restricts the scale and pace of selloffs.

Sticking Points

The progress of privatization is not likely to be dramatic over the next few years. The major reason is that the number of enterprises to be divested is immense. The lack of indigenous capital markets and limited local availability of private financial resources considerably restrict the scale and pace of selloffs. Divestiture cannot proceed without buyers.

In addition, a whole new infrastructure has yet to be put in place. Shortage of skilled lawyers, accountants and financial experts places these countries at a disadvantage in negotiating sales of state-owned properties. Valuation is a problem. Eastern European accounting generally prices assets at their book-keeping value. There is no experience in valuing enterprises as on-going concerns and in pricing their future earning potential.

A number of Central and Eastern European Governments have approached UNCTC for technical advise and training in the area of privatization. In February 1991, UNCTC will hold a workshop on foreign investment and privatization in Romania. Jointly with UNDP, UNCTC will assist Albania in drafting company, property and foreign investment laws. ■

Directory of the World's Largest Services Companies

Moody's Investors Service, together with UNCTC, will publish data on the world's leading services corporations. The first series will be released this month.

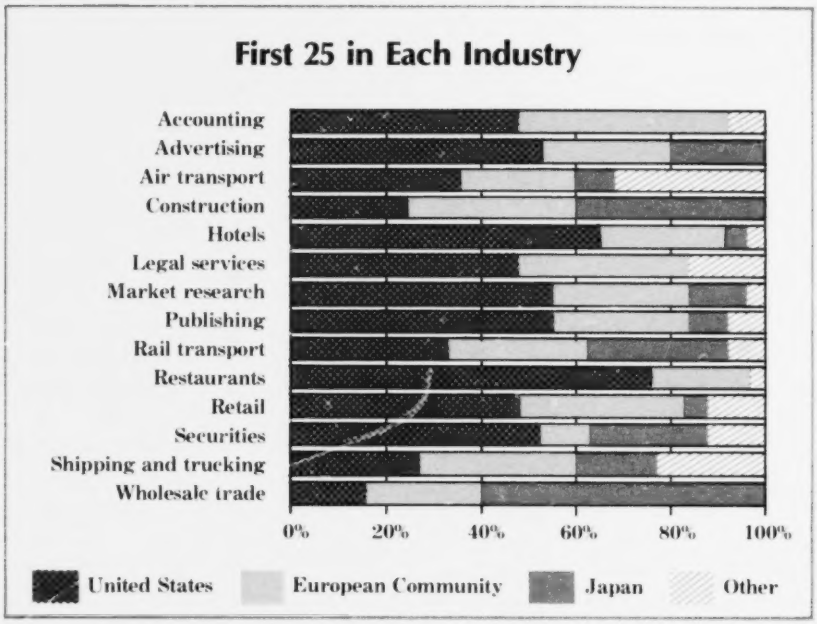
Services are now the largest economic sector and the most important source of jobs in most developed and in many developing countries. In 1989, international transactions in services encompassed $600 billion in international trade and an estimated $100 billion flows of foreign direct investment.

But while there are many directories and data bases of the world's largest industrial firms, there is little similarly organized information covering the world's largest services firms. The *Directory of the World's Largest Service Companies* is designed to fill this gap. It presents detailed information on 204 service firms covering 14 industries.

Each industry is described as a whole (including market size, ranking measures, concentration and globalization patterns) and accompanied by one or more tables ranking the largest firms.

Within each industry up to 15 of the largest firms are profiled in detail. Individual company coverage includes:

- Legal status, affiliation, ownership and major shareholders of the firm; and
- Up to four standard tables describing the firm's financial performance and standing for the 1983-1988 period: (1) five-year consolidated data; (2) by major geographic region; (3) by individual country; and (4) a listing of subsidiaries and affiliates.



The *Directory*, which is planned to be annually updated, is intended to serve as a tool for Governments, the business community, research institutions, universities and scholars working in this field. In addition, the Centre plans to expand the coverage to 37 industries, including: commercial banking, software, insurance, medical health, waste management and motion pictures, among others. ■

Directory of the World's Largest Service Companies. Available in December 1990. Copies may be obtained from Moody's Investors Service, 99 Church Street, New York, NY 10007. Call toll-free 1-800-342-5647, ext. 0435. Price $95 for public/academic library and $295 for corporations.

The United Nations Centre on Transnational Corporations is an autonomous body within the United Nations Secretariat. Under the guidance of the Commission on Transnational Corporations, an intergovernmental subsidiary organ of the United Nations Economic and Social Council, the Centre seeks to further understanding of the nature of transnational corporations; to secure effective international agreements; and to strengthen the negotiating capacity of host countries, in particular the developing countries.

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